Beijing, 29 July 2020

ADAPTING TO A NEW COVID-19 REALITY

ACTION POINTS FOR GERMAN BUSINESS AND THE CHINESE GOVERNMENT
METHODOLOGY & DEMOGRAPHICS

Regional Location

- Shanghai: 33%
- Beijing: 16%
- Jiangsu: 16%
- Guangdong: 10%
- Hong Kong SAR: 6%
- Liaoning: 6%
- Tianjin: 5%

~ 230
June 18-30

Industry

- Machinery/Industrial Equipment: 32%
- Automotive: 19%
- Business Services: 13%
- Electronics: 9%
- Chemicals: 4%
BUSINESSES ON TRACK TO RECOVERY – BUT STILL FAR AWAY FROM NORMAL
BIGGEST CHALLENGES ALONG THE WAY

Please specify how your business in China is currently affected by the COVID-19 epidemic.
(n=227, multiple answers possible)

- Travel restrictions (e.g. quarantine measures, international travel disruptions) 89%
- Decreased demand for products/services 66%
- Cash flow challenges 36%
- Uncertainty and inability to make business and investment decisions 36%
- Disruptions to global supply chains 28%
- Increased demand for products/services 18%
- Manufacturing delays due to shortage of supplies 14%
- Lay-offs 10%
- Inability to meet contractual delivery deadlines due to disruptions to domestic logistics 9%
- Costs of HR compliance 8%
- Staff shortages 6%
- No impact 2%

unchanged from March poll
down from March poll
up from March poll
BUSINESSES ON TRACK TO RECOVERY – BUT STILL FAR AWAY FROM NORMAL PRODUCTION CAPABILITIES

By when do you expect your company’s business operations to return to normal?
(n=225, per item, only one answer possible)

Already returned to normal: 72%
End of Q3: 15%
Too early to state: 7%
End of 2020: 6%
Not applicable:

*manufacturing companies only
EXPECTED NORMALIZATION MIGHT BE SHIFTED INTO THE NEXT YEAR
RECOVERY OF DEMAND & SALES: UNCERTAINTY REMAINS

By when do you expect your company’s business operations to return to normal?
(n=225, per item, only one answer possible)

Demand
- Already returned to normal 7pp
- End of Q3 24%
- End of 2020 22%
- Too early to state 37%
- Not applicable 14%

Sales
- Already returned to normal 10pp
- End of Q3 23%
- End of 2020 24%
- Too early to state 34%
- Not applicable 4%

(n=225, per item, only one answer possible)
CONTINUOUS SEVERE ECONOMIC IMPACT EFFECTS ON REVENUE IN H1 2020

To what extent has the COVID-19 epidemic impacted your company’s revenue in the first half of 2020?
(n=229, only one answer possible)

- Decrease of less than 10%: 21%
- Decrease of up to and more than 20%: 14%
- Increase of revenue: 6%
- No impact: 3%
- Too early to state: 24%
- I don’t know: 3%

*only February & March
Have you adjusted your company’s 2020 business performance target? (n=229, only one answer possible)

<table>
<thead>
<tr>
<th>Option</th>
<th>Feb 2020</th>
<th>March 2020</th>
<th>June 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower the target (moderately/ significantly)</td>
<td>46%</td>
<td>57%</td>
<td>62%</td>
</tr>
<tr>
<td>Maintain the target</td>
<td>22%</td>
<td>24%</td>
<td>32%</td>
</tr>
<tr>
<td>Raise the target (moderately/ significantly)</td>
<td>1%</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>Too early to state</td>
<td>1%</td>
<td>15%</td>
<td>28%</td>
</tr>
<tr>
<td>I don't know</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

*only February & March
How is the COVID-19 epidemic impacting your business strategy?
(n=227, multiple answers possible, per frequency)

Impacts on Business Strategy

- We are delaying or canceling investment decisions: 51%
- No changes to existing strategy: 38%
- We increasingly localize supply chains: 19%
- We increasingly localize R&D in China: 11%
- We increasingly localize management functions in China: 9%
- Adjusting/diversifying supply chain by seeking to source components outside China: 8%
- Moving capacity out of China: 6%
- We are increasing investments in China (e.g. expanding production in China): 4%
- We consider moving R&D activities back to the HQ or other locations outside China: 3%

unchanged from March poll
down from March poll
new item in June poll
ADVOCACY: NOW MORE IMPORTANT THAN EVER
KEY ASPECTS TO SUPPORT GERMAN BUSINESSES IN CHINA

Q6: Which topics do you consider most important for the German government to address during its presidency of the EU Council, beginning on 1 July 2020, to support your business in China? (n=220, multiple answers possible)

60% COVID-19 related restrictions on international travel
44% Equal treatment of local and foreign companies
41% Internet access restrictions; slow cross border internet speed
22% Capital transfer and cross border payments
20% Administrative hurdles and lack of transparency
19% Conclusion of a high-quality CAI
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ADAPTING TO A NEW COVID-19 REALITY
AHK ADVOCACY PAPER & PRACTICAL GUIDE: ADAPTING TO A NEW COVID-19 REALITY

PURPOSE

Reflecting the recent economic-policy discourse among German businesses in China:

1. Identify key developments and operational changes in the China business of German companies in the wake of COVID-19.

2. Outline specific advocacy points to be addressed with central and local governments in China.

3. Give practical suggestions that help companies to overcome pressing issues and adapt to new conditions.
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METHODOLOGY

**Interviews & roundtables** with 70 business execs  
February to June 2020

**3 Flash Surveys:** Impact of COVID-19 on German business in China (Feb, Mar, Jun)

**Quick Poll** on Travel Restrictions (May)

**German Chamber’s Business Confidence Survey 2019/20**

**Leading Questions**

What **changes** are German companies in China experiencing in different fields of **business operations amid COVID-19**, and what are their estimates and suggestions regarding future **business outlook**?

How could the **Chinese government support** German companies in coping with the effects and changes caused by COVID-19?
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SIX PRESSING ISSUES

1. International Travel Restrictions
2. Investment Confidence under Pressure
3. Digitalization of Business and Production
4. Access to Local Financing
5. Localization of Staff
6. Decoupling Tendencies
Easing of international inbound travel restrictions based on scientific facts – without compromising health and safety

- Regulations should be based on reciprocity and standardized international arrangements
- Visa regulations should be transparent and existing residence permits should not be invalidated
- Commercial flight arrangements and internationally accepted aviation standards for flight slot distribution should be brought back to pre-COVID-19 levels
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RECOMMENDATIONS TO THE CHINESE GOVERNMENT

Ensuring level playing field and reducing bureaucracy

- Finalize a high-quality EU-China Comprehensive Agreement of Investment (CAI) before the end of 2020
- Facilitate the process to grant licenses or approvals, especially on the local implementation level
- Equal duration of registration process, participation in procurement, and implementation of labor laws for foreign and domestic companies

Investment Confidence
Digitalization of Business and Production

Ensuring a transparent and global compatible IT framework

- Unrestricted and faster internet access and data transfer
- Transparent and appropriate cyber security regulations to ensure the protection of data and intellectual property of companies
- Allowing necessary cross-border data transfer for foreign-invested enterprises
Introducing transparent and appropriate banking credit regulations

- Change bank policies in order to make banks accept (globally) held assets of FIE, even if the legal representative might not be a Chinese national
- Facilitate capital transfer and cross-border payments
- Grant financial incentives especially for SME (e.g. rent reduction) to maintain good cash-flow and thus maintain labor force

Access to Local Financing
Attracting top talents from all over China, but also from abroad

- Mobility of workforce within China needs to be improved, e.g. further reform of the hukou-system
- Transparent and easier visa and green card regulations with reduced administrative complexity and with more flexibility for expats, e.g. longer validity period of business visa

Localization of Staff
Adhering to international standards for global market-based governance at multilateral level

- A positive signal would be China joining an extended WTO Pharma-Agreement in order to contribute to the global fight against COVID-19
- Abstaining from protectionist measures, like the de facto mandatory requirement for foreign companies to adapt to domestic standards when doing business in China
PRACTICAL SUGGESTIONS

Business Leaders to Business Leaders

How to overcome current challenges and adapt to new conditions?

1. Building up regional core competence as well as regional focus strategies (e.g. supply chains, production, R&D).

2. Optimizing regulatory “China competence” through strengthening government affairs functions and legal expert positions.

3. Adapting to new conditions regarding digitalization and automation in time.

4. Seizing new chances for bilateral co-operation in the area of digitalization.

5. Rethinking the ‘Just-in-time’ approach in supply chain management and acquiring local safety stocks.

6. Developing local management competency, as the localization of staff is becoming increasingly important.
About the German Chamber of Commerce in China
The German Chamber of Commerce is the official membership organization for German companies in China, and has currently more than 2,700 members. The German Chamber helps its members to succeed in China by providing up to date market information and practical advice. It offers a platform for the German business community and represents its members' interests towards stakeholders including government bodies and the public.

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